

Sonoma County Cannabis Economic Impact

TASK FORCE REPORT

October 7, 2016

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1 EXECUTIVE SUMMARY

1.1 Background

In 1996, California voters adopted Proposition 215, becoming the first state in the nation to allow the use of cannabis for medicinal purposes. Proposition 215 and Senate Bill 420, which was passed by the legislature in 2003, created the legal basis for a collective nonprofit system under which the cannabis industry operated until 2016. This collective nonprofit system was extremely limited and did not provide local government or the cannabis industry with clear guidelines in which to operate. Recent changes in state law spearheaded in part by two local representatives, Assemblymember Jim Wood and Senator Mike McGuire, have created a framework for the regulation of medical cannabis known as the Medical Cannabis Regulation and Safety Act (MCRSA). These regulations, adopted in 2016, and scheduled to go into effect in 2018, license and regulate all aspects of the medical cannabis industry and allow for cannabis businesses to operate as commercial for-profit business ventures.

These changes in state law and the potential for voters to approve Proposition 64, a ballot measure known as the Adult Use of Marijuana Act (AUMA) legalizing adult recreational use of cannabis, in November 2016, could significantly impact our local economy. There are differences between how MCRSA and the AUMA regulate and tax cannabis, however they both have a very similar licensing structure that will allow the cannabis industry to grow and operate in ways it previously could not under the collective nonprofit system. If voters approve AUMA, MCRSA licenses and regulations will remain intact, and local governments will have the ability to prohibit or regulate recreational and or medical marijuana businesses.

While we will not know exactly how the State of California will regulate the commercial cannabis industry until after the November election, as a county we must work to understand how we should regulate the industry and how it will impact our local economy.

With this in mind, the County of Sonoma created the Marijuana Technical Advisory Committee (MTAC), which is comprised of representatives of nearly every county agency. The MTAC includes several working groups, including Agriculture and the Environment, Enforcement and Land Use, Taxation and Revenue, Economic Development and Jobs, and Health and Human Services. Together these groups will explore the many facets of the cannabis industry and its impacts on our community to develop a draft ordinance that will regulate the industry in Sonoma County.

To inform the work of the Economic Development and Jobs subgroup, and help prepare our local business community, the Sonoma County Economic Development Board (EDB) created a Task Force comprised of 16 business representatives from key industry clusters. Over a period of five weeks, the Task Force members met with cannabis industry leaders to learn about the industry from legal experts, cultivators, cannabis manufacturers, distributors and lab testing professionals, as well as local commercial real estate professionals.

After learning more about the industry, the group worked together to formulate a series of insights into potential economic opportunities, potential threats, and policy recommendations for the Board of Supervisors. The Task Force was focused only on economic impacts and opportunities. The information provided in this report is intended to share some of the

knowledge and insights gained by the Task Force with the business community and government officials. The views and policy recommendations outlined in this document are those of the Task Force, not the Economic Development Board or the County Sonoma.

1.2 Summary of Findings

The cannabis industry is already a major part of our economy.

Through the legal means provided by proposition 215 and within the underground market, California and Sonoma County have developed a substantial cannabis-related economy. Although it is nearly impossible to accurately measure the economic impact of a largely underground economy, Tawnie Logan, Executive Director of the Sonoma County Growers Alliance, estimates there may be up to 10,000 grows in Sonoma County providing primary and secondary income for thousands of county residents. It is also estimated that Sonoma County, like most other North Coast counties, is a significant exporter of cannabis, meaning much of the income created by local cultivators comes from outside the region.

As with other agricultural products grown in the county and sold elsewhere, the income created by local cultivators has a significant multiplier effect as it is circulated through our economy, creating revenue and jobs in businesses completely unrelated to cannabis. As the cannabis industry increasingly integrates with the traditional economy, Sonoma County has an opportunity to significantly increase this economic impact, as there are tremendous growth opportunities for local businesses that wish to serve the industry directly. Educating our business community about the cannabis industry and finding ways to connect traditional businesses with cannabis industry leaders will be essential in ensuring that positive economic impacts remain in Sonoma County.

However, it will be very difficult for some local businesses to work with cannabis businesses as the industry is forced to operate almost exclusively in a cash economy. The US Drug Enforcement Agency classifies cannabis as a Schedule I Narcotic, and it is illegal at the federal level. This classification means that any bank or credit union, whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) cannot service the industry without risking their charter. This makes typical business operations such as completing employee payroll, hiring local service providers, signing a lease, and paying taxes extremely difficult. Additionally, operating a cash-only business creates serious safety and security concerns.

Even without access to basic business services, the cannabis industry is expected to expand rapidly under the regulations created in MCRSA and could experience tremendous growth if AUMA passes in November. This expansion will certainly impact our local economy and may cause additional pressures on the already tight labor, housing and commercial real estate markets. To mitigate these impacts, reduce the size of the underground economy, and support our existing cannabis businesses as they move toward compliance with these new regulations, the Task Force has created a series of insights and recommendations for local policymakers. A summary of the key recommendations and a complete list of the opportunities, threats and policy recommendations identified by the Task Force are available on pages 22-24).

1.3 Key Recommendations

1. **Establish a temporary transition period**

New state and county regulations will create tremendous change and disruption to county government and the existing industry. These changes cannot happen overnight.

- a) To reduce impacts on the cannabis industry and local regulators, the Task Force recommends establishing a minimum of a one-year transition period to achieve compliance with local and state regulations.
- b) Convene a County hosted cannabis stakeholder advisory group to continue discussing cannabis issues through 2017.

2. **Promote a dynamic and competitive legal cannabis market**

A successful local cannabis industry will provide opportunities for a wide range of non-cannabis-related businesses.

- a) Ensure permits are available for all license types outlined in MCRSA
- b) Identify strategies for integrating cannabis-related businesses into the existing economy through workshops and job fairs that include both cannabis and traditional businesses.
- c) To successfully integrate the cannabis industry into the local economy, the County should provide access to existing best business practices education, and workforce development that is available to other segments of the economy.

3. **Mitigate negative impacts on countywide real estate assets**

The successful integration of cannabis businesses into our economy will create additional pressure on an already stressed supply of agricultural lands, commercial real estate and workforce housing.

- a) Identify opportunities to fast track permitting processes to increase the supply of housing and commercial building inventory.
- b) Encourage a cooperative farming model by allowing multiple permits on one parcel, and allowing cottage growers to cultivate collectively in a legally-designated area.
- c) Limit the canopy size for cultivation at one acre per permit.

2 CANNABIS ECONOMIC IMPACT TASK FORCE

2.1 Overview

The Sonoma County Board of Supervisors asked that during the summer and fall of 2016 Sonoma County agencies prepare for the rollout of new state cannabis-related regulations. With this in mind, the County created the Marijuana Technical Advisory Committee (MTAC), which is comprised of representatives of nearly every county agency. MTAC includes several working groups, including Agriculture and the Environment, Enforcement and Land Use, Taxation and Revenue, Economic Development and Jobs, and Health and Human Services.

To inform the work of the MTAC, the Sonoma County Economic Development Board (EDB) convened the Cannabis Economic Impact Task Force. The role of the Task Force was to identify potential economic opportunities and challenges, and create a series of recommendations and insights on how both the county and the local government can be as prepared as possible for expected changes to the economy

In addition to informing the work of policymakers, a key purpose of the Task Force was to create a better understanding among business leaders about the cannabis industry so they could identify potential business opportunities.

2.2 Goals

The Cannabis Economic Impact Task Force had the following four goals:

1. Inform the work of Sonoma County regulatory bodies as they draft regulations affecting the industry.
2. Provide business and government leaders with information and resources so they can adapt proactively rather than reactively to changes in the cannabis industry and local economy.
3. Establish productive communication flows and relationships between the members of the traditional business community and members of the cannabis business community.
4. Assist the business community in identifying the economic opportunities and potential economic impacts created by changes in the cannabis industry.

2.3 Members

The following 16 members of the Sonoma County business community were invited to serve as Task Force members:

- | | |
|---|--|
| 1. Brian Ling <i>Co-Chair</i>
Sonoma County Alliance | 9. Joe Horak
PG&E |
| 2. Tawnie Logan <i>Co-Chair</i>
Sonoma County Grower's Alliance | 10. Jay Jenson
Novavine |
| 3. Alon Aldani
Cornerstone Properties | 11. Brandon Jewell
Santa Rosa Chamber |
| 4. Arthur Deicke
Environmental Pollution Solutions | 12. Nathan Kinsey
Sonoma Clean Power |
| 5. Ken Fischang
Sonoma County Tourism Bureau | 13. Brandon Levine
Mercy Medicine |
| 6. Terry Garrett
Sonoma County Go Local | 14. Dave Peterson
Keegan and Coppin |
| 7. Merlin Hanauer
Sonoma State University | 15. Sarah Rodebaugh
NutraDG |
| 8. Steve Harrison
Vino Shipper | 16. Danielle Sandoval
Zainer Rinehart Clarke |

Co-Chairs

The EDB Executive Director appointed two Task Force members to serve as co-chairs, Brian Ling and Tawney Logan. Mr. Ling is the Executive Director of the Sonoma County Alliance, a coalition of business, agriculture and labor leaders organized to encourage a healthy economy and maintain a sound environment. Prior to his affiliation with the Alliance, Brian had a 26-year career as CEO with the Reliance Trailer group of companies, employing as many as 400 throughout the western United States.

Ms. Logan is the Executive Director of the Sonoma County Growers Alliance, a local trade group that helps cultivators and industry professionals understand their rights and responsibilities with respect to changes in California law. For 15 years, she has advocated for organic and sustainable agricultural practices within the cannabis industry and is committed to expanding education and implementation of best management practices for the environment and end user.

2.4 Meetings

The Task Force met a total of five times, for two hours per meeting, on the following dates:

1. Wednesday, July 6, 2016
2. Wednesday, July 13, 2016
3. Wednesday, July 20, 2016
4. Wednesday, July 27, 2016
5. Wednesday, August 3, 2016

Each meeting was co-facilitated by Tim Ricard, EDB Program Manager, and Dr. B.J. Bischoff, owner of Bischoff Performance Improvement Consulting.

The first four meetings were structured so that the first hour and a half of the meeting comprised presentations from cannabis industry experts from California and Colorado, followed by a facilitated question and answer session. At the end of each of the first four meetings, participants discussed opportunities and threats related to Sonoma County's business climate relative to the topics that were discussed during that meeting.

The final meeting was a facilitated discussion during which Task Force members identified business opportunities, threats to the business environment, and policy recommendations to be presented to the Board of Supervisors regarding major aspects of the cannabis industry in Sonoma County.

The meeting topics and speaker's name, position, company and location are outlined below

Meeting #1

Legal overview of the cannabis industry

1. **Joe Rogoway**

Lead Attorney and Founder, Rogoway Law Group
Santa Rosa, CA

2. **Tim Moorland**

Director of Legislative and Regulatory Affairs, California State Board of Equalization
Sacramento, CA

3. **David Guhin**

Interim Planning and Economic Development Director, City of Santa Rosa
Santa Rosa, CA

4. **Rebecca Wachsberg**

Deputy County Administrator - Community & Government Affairs, County of Sonoma
Sonoma County, CA

Meeting #2

Overview of the differences between the Adult Use of Marijuana Act (AUMA) and the Medical Marijuana Regulation and Safety Act (MCRSA)

1. **Tawnie Logan**

Task Force Co-Chair
Executive Director, Sonoma County Grower's Alliance
Sonoma County, CA

2. **Tim Ricard**

Program Manager, Sonoma County Economic Development Board
Sonoma County, CA

Cannabis Cultivation and Commercial Impact

1. **Andrew Livingston (via Skype)**

Director of Economics and Research, Vicente Sederberg LLC
Denver, CO

2. **Dino D'Argenzio**
Senior Real Estate Advisor and Partner, Keegan & Coppin Co.
Santa Rosa, CA
3. **Tony Linegar**
Agricultural Commissioner
Sonoma County, CA
4. **Hezekiah Allen**
Executive Director, California Growers Association
Sacramento, CA

Meeting #3

Transportation, Distribution, Manufacturing, and Lab Testing

1. **Ryan Long** (*Manufacturing*)
Care by Design
Santa Rosa, CA
2. **Josh Wurzer** (*Testing*)
President, SC Labs
Santa Cruz, CA
3. **Lauren Fraser** (*Distribution*)
Co-founder, River Collective (RVR)
Berkeley, CA

Meeting #4

Cannabis Tourism, Retail Sales, and Branding

1. **David Hua**
CEO and Co-Founder, Meadow Care
San Francisco, CA
2. **Danny Schaefer** (*via Skype*)
CEO, My 420 Tours
Denver, CO
3. **Amanda Conley**
Partner & Attorney, Brand and Branch LLP
Oakland, CA

Meeting #5

Topics addressed

- Cannabis Cultivation
- Cannabis Manufacturing
- Cannabis Lab Testing
- Cannabis Distribution/Transportation
- Cannabis Retail Online Sales and Consumption
- Labor Considerations

- General Industry Considerations
- Strategies for encouraging compliance among current cannabis-related businesses

Issues discussed during the group discussion for each topic

- The business opportunities in Sonoma County that could result from the growing cannabis industry and strategies for leveraging these opportunities
- Threats to the business environment of Sonoma County that could result from the growing cannabis industry and ways to mitigate these threats
- Economic impact-related policy recommendations to present to the Sonoma County leadership

3 LEGAL FRAMEWORK

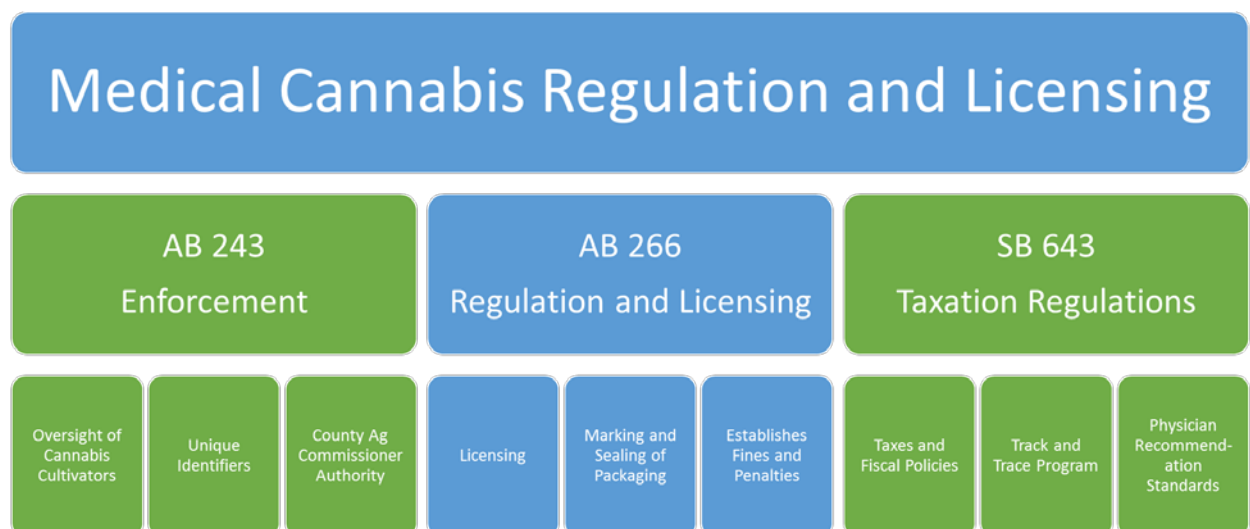
3.1 Overview

In 1996, the Compassionate Use Act passed, which gave doctors the ability to recommend cannabis to patients and provided patients with affirmative defenses in charges of possession and cultivation, but it didn't provide patients with a legal way to obtain cannabis. In 2003 the California state legislature passed SB420, which forms the basis for the cannabis industry today. It added statutes to benefit patients, with the most important being Health and Safety Code 11362.775, which allowed qualified patients and physicians to form collectives operating as nonprofits to cultivate cannabis and not be subject to criminal prosecution for possession, cultivation, and transportation.

3.2 MMRSA and MCRSA

In the fall of 2015, the California legislature enacted the Medical Marijuana Regulation and Safety Act (MMRSA), and a series of the following companion bills: AB 266 (Bonta, Cooley, Jones-Sawyer, Lackey); AB 243 (Wood); and SB 643 (McGuire). A statewide regulating agency was then created, the Bureau of Medical Marijuana Regulation, which worked with several state agencies to create a comprehensive regulatory regime.

The following chart identifies the contents of each of the three bills:



MMRSA provided a comprehensive, robust regulatory framework for all commercial medical cannabis activities, through a multi-agency approach to regulation and licensing medical cannabis. However, the law deferred to local governments by providing options to outlaw or regulate cannabis locally. Although MMRSA was effective January 1, 2016, the regulations will go into effect no later than January 1, 2018.

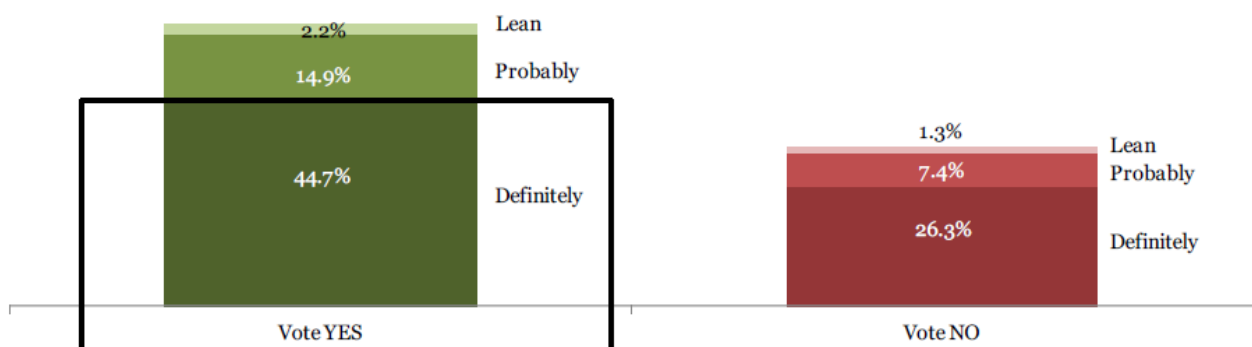
On June 27, 2016 the Governor approved SB837, changing the name of the Medical Marijuana Regulation and Safety Act (MMRSA) and the Bureau of Medical Marijuana Regulation to the Medical Cannabis Regulation and Safety Act (MCRSA) and the Bureau of Medical Cannabis Regulation. SB837 also made other changes such as the creation of a license Type 1C- Cottage Cultivation.

MCRSA tasks the following California Departments to establish regulations for the medical cannabis industry:

- **Bureau of Medical Cannabis Regulation**
Responsible for licensing transporters, distributors, dispensaries and testing laboratories
- **Department of Fish and Game**
Regulate the environmental impacts of cannabis cultivation
- **Department of Food & Agriculture**
Responsible for licensing cultivators and establishing a track and trace program.
- **Department of Pesticide Regulation**
Regulate pesticide use for cannabis cultivation
- **Department of Public Health**
Responsible for licensing manufacturers of products, such as edibles.
- **State Water Resources Board**
Regulate the environmental impacts of cannabis cultivation on water quality.

3.3 AUMA-Prop 64 Overview

The Adult Use of Marijuana Act (AUMA) will appear as a ballot initiative, called Proposition 64, in the November 8, 2016 California elections. Californians will be able to vote to allow or disallow adults 21 years and older to possess up to one ounce of marijuana and cultivate up to six plants for personal use at their household. This ballot measure is funded largely by tech entrepreneur Sean Parker and supported by Lt. Governor Newsom and the Democratic Party. The California Police Chiefs Association opposes Prop 64.



California Statewide Voter Survey, Probolsky Research (Aug. 9, 2016).

AUMA stipulates that plants must be out of public view and secure from children. Local governments may ban outdoor home cultivation, but not home indoor or greenhouse grows. AUMA would relieve patients with state medical marijuana ID cards from paying state sales tax. It would rewrite criminal penalties so as to reduce the most common cannabis felonies to misdemeanors and allow prior offenders to petition for reduced charges. However, illegal possession in excess of one ounce will be a felony.

3.4 AUMA and MCRSA Comparison

If AUMA is approved by the voters, there would be a two-tiered license system:

- Medical License System-MCRSA
- Recreational License System-AUMA.

Business regulations under AUMA provide for a statewide commercial licensing plan that parallels MCRSA (see table on page 11). The key differences in the commercial licensing plan are:

- AUMA creates two additional license types –Type 5A and Type 5B, which address large cultivation over one acre outdoors. These additional license types would not be available until 2023.
- AUMA refers to dispensaries as “retailers,” eliminates the “transporting” license.
- AUMA would create a new category of cannabis businesses called “microbusinesses,” which are small operators with cultivation space not exceeding 10,000 square feet.
- A microbusiness license would allow holders to cultivate marijuana and act as a licensed distributor, Level 1 manufacturer, and retailer all under one license.
- Under MCRSA, licensees are very restricted in their ability to hold licenses in multiple categories. Subject to a limited exception, MCRSA allows licensees to hold at most two different license types. Also subject to a limited exception, MCRSA licensees are prohibited from holding an ownership interest in real property, personal property, or other assets associated with or used in any other MCRSA license category

Both MCRSA and AUMA provide for local land use control. Both allow local governments to license, zone, and ban cannabis businesses and determine where is it appropriate to grow, sell, test, and manufacture cannabis products. Both cities and counties may impose local taxes in both systems. January 1, 2018 is the key effective date for both MCRSA and AUMA regulations, as the regulations for both laws will go into effect at the same time.

Taxes

Both MCRSA and AUMA allow local municipalities to impose additional taxes.

MCRSA did not create any new taxes for marijuana businesses. All businesses operating pursuant to MCRSA are required to have a seller’s permit with the State Board of Equalization, which imposes a 7.5-10% sales and use tax. Local governments can impose additional taxes on marijuana businesses pursuant to applicable law.

AUMA would create a new tax scheme that will affect medical marijuana as well as recreational marijuana.

- A 15% excise tax on gross receipts will be collected for both medical and recreational marijuana. The excise tax would be imposed on purchasers of cannabis or cannabis products sold in California. However, the current sales and use tax would not apply to medical cannabis sales to qualified patients or primary caregivers with a valid medical marijuana identification card.
- Impose a cultivation tax on all harvested medical and recreational marijuana that enters the commercial market. The tax would be calculated as follows: Marijuana flowers – \$9.25 per dry-weight ounce; marijuana leaves – \$2.75 per dry-weight ounce. The cultivation tax would not apply to marijuana cultivated for personal use or cultivated by a qualified patient or primary caregiver.

MCRSA License Types		AUMA License Types**	
Type 1	Cultivation ; Specialty outdoor; Small (Up to 5,000 sf. of canopy, or up to 50 noncontiguous plants)	Type 1	Cultivation ; Specialty outdoor; Small (Same as MCRSA)
Type 1A	Cultivation ; Specialty indoor; Small (Up to 5,000 sf.)	Type 1A	Cultivation ; Specialty indoor; Small (Same as MCRSA)
Type 1B	Cultivation ; Specialty mixed-light; Small (Up to 5,000 sf. using exclusively artificial lighting)	Type 1B	Cultivation ; Specialty mixed-light; Small (Same as MCRSA)
Type 1C	Cultivation ; Cottage (Up to 25 mature plants)		
Type 2	Cultivation ; Outdoor; Small (Up to 5,000 sf. using a combination of artificial and natural lighting)	Type 2	Cultivation ; Outdoor; Small (Same as MCRSA)
Type 2A	Cultivation ; Indoor; Small (5,001 -10,000 sf.)	Type 2A	Cultivation ; Indoor; Small (Same as MCRSA)
Type 2B	Cultivation ; Mixed-light; Small (5,001 -10,000 sf.)	Type 2B	Cultivation ; Mixed-light; Small (Same as MCRSA)
Type 3	Cultivation ; Outdoor; Medium (10,001 sf. – 1 Acre)	Type 3	Cultivation ; Outdoor; Medium (Same as MCRSA)
Type 3A	Cultivation ; Indoor; Medium (10,001 – 22,000 sf.)	Type 3A	Cultivation ; Indoor; Medium (Same as MCRSA)
Type 3B	Cultivation ; Mixed-light. Medium (10,001 – 22,000 sf.)	Type 3B	Cultivation ; Mixed-light. Medium (Same as MCRSA)
Type 4	Cultivation ; Nursery	Type 4	Cultivation ; Nursery (Same as MCRSA)
No Type 5 License		Type 5	Cultivation ; Outdoor; Large (No artificial lighting greater than 1 Acre)
		Type 5A	Cultivation ; Indoor; Large (Over 22,000 sf. using exclusively artificial lighting)
		Type 5B	Cultivation ; Mixed-light; Large (Over 22,000 sf. using a combination of artificial and natural lighting)
Type 6	Manufacturer 1 (Using non-volatile solvents)	Type 6	Manufacturer 1 (Same as MCRSA)
Type 7	Manufacturer 2 (Using volatile solvents)	Type 7	Manufacturer 2 (Same as MCRSA)
Type 8	Testing	Type 8	Testing (Same as MCRSA)
Type 10	Dispensary ; General	Type 10	Retailer (Includes retail sale and delivery)
Type 10A	Dispensary ; No more than three retail sites		
Type 11	Distribution	Type 11	Distributor (Same as MCRSA but not mandatory)
Type 12	Transporter	Type 12	Microbusiness (Can cultivate up to 10,000 sf. and also act as a licensed distributor, Level I manufacturer and retailer)

**All licenses issued for adult use would be distinct from those issued for medical use, and would be designated as such. E.g., an outdoor cultivator for *medical* cannabis would receive a “Type 1” license, whereas a non-*medical* outdoor cultivator would receive a “Type 1 – Nonmedical” or “Type 1NM” license.

3.5 Track and Trace

The California Department of Food and Agriculture is in the process of developing a “track and trace” system for the cannabis industry. Once developed, this system is expected to provide state taxing, public health, and law enforcement officials the ability to follow a marijuana plant from a seed to the packaged product at a dispensary. The level of detail could include how many times a single plant (or batch of plants), was sprayed with pesticide, when it was packaged and sold, how much of the product from that plant has been sold to patients, and how much remains on dispensary store shelves.

That is valuable information for public health officials who want to ensure cannabis has passed lab tests, law enforcement who want to target illicit business, and taxing agencies tasked with collecting sales tax.

In Colorado, each individual plant is tagged, scanned and followed through the entire supply chain all the way up to the retail level.

3.6 City of Santa Rosa

According to David Guhin, Santa Rosa Planning and Economic Development Director, medical cannabis is one of the Santa Rosa City Council's top five key initiatives, along with housing, homelessness, infrastructure, and the Roseland annexation. Santa Rosa is in the process of developing a comprehensive medical cannabis policy that is multi-faceted and will address all aspects of the industry.

On February 23, 2016, the Santa Rosa City Council unanimously introduced an interim ordinance to allow Commercial Cultivation of Medical Cannabis with a Minor or Major Conditional Use Permit (depending on size) in the Light, Industrial, General Industrial, and Limited Light Industrial Zoning Districts.

In addition to this interim ordinance, the city is seeking ways to integrate cannabis regulations into the city's existing codes and guidelines, while they develop comprehensive cannabis ordinance.

On August 2, 2016, the Santa Rosa City Council directed the Zoning Administrator to issue a Zoning Code Interpretation to allow cannabis support businesses; such as lab testing, oil production and transportation services; in appropriate existing commercial zones. The interpretation was issued the following day, and became effective immediately. The interpretation will remain in effect until such time as it is replaced by a Council Ordinance as part of the comprehensive policy effort currently underway and expected to be completed in late 2016.

4 CULTIVATION OVERVIEW

4.1 Existing Cultivation

As outlined in the Legal Framework section, the 1996 Compassionate Use Act, SB420, created the legal environment in which collectives operating as nonprofits could cultivate cannabis and not be subject to criminal prosecution for possession, cultivation, and transportation. Through these legal means and within the underground market, California and Sonoma County have developed a substantial cultivation economy.

Hezekiah Allen, Executive Director of the California Growers Association, estimates that there are between 40,000 to 60,000 grows in California and that the state produces in excess of 60% of the nation's cannabis. The state cultivates far more cannabis than is consumed in California and the majority

is exported through unregulated means. Locally, Tawnie Logan of the Sonoma County Growers Alliance estimates there could be up to 10,000 grows in Sonoma County.

According to the Allen, California is a global leader in cannabis industry and has been for generations. He said: "The growers and industry are already here. The state has a multi-generational heritage of small farms that has been shaped by the legacy of prohibition, and the largest segment of the current marketplace are owner-operated cottage farms. Small farmers have seen their incomes decrease in recent years as prices have crashed, going from a high of \$3,200/lb. to the current rate of \$1,200/lb."

See chart below for the Growers Association's breakdown of the estimated number of employees and income generated by different farm sizes.

Cottage	Owner operator	25 to 50 thousand annual net	Least capitalized and no access to financial services
Specialty Up to 1/8 acre	1 to 3 FTE	50 to 100 thousand annual net	Least capitalized and lowest access to financial services
Small Up to 1/4 acre	3 to 7 FTE	100 to 250 thousand annual net	Better capitalized and nominal access to financial services
Medium Up to 1/2 acre (1 acre for outdoor)	5 to 15 FTE	More than 250 thousand annual net	Best capitalized and increased access to financial services

4.2 State Licensure

The California Department of Food and Agriculture (CDFA) has been charged with developing state regulations for cultivation and developing the Medical Cannabis Cultivation Program. This program will license cultivators in the state, establish conditions under which indoor and outdoor cultivation may occur, establish a track and trace program for reporting the movement of medical cannabis items through the distribution chain, and assist other state agencies in protecting the environment and public health and safety. These regulations are expected to complete in September 2016.

The Sonoma County Agricultural Commissioner will be responsible for enforcing the state and local cultivation ordinances and state licenses will not be issued to anyone who has not already obtained his/her license from the county.

4.3 County of Sonoma Zoning

The Permit and Resource Management Department (PRMD) is the lead agency responsible for developing, implementing and enforcing land use regulations within the unincorporated County.

PRMD is currently working to establish licensing or permitting schemes for land uses including cultivation, labs and testing, distribution, transportation, deliveries, manufacturing and dispensaries. These ordinances are expected to be reviewed by the Board of Supervisors in late 2016.

5 COMMERCIAL REAL ESTATE

To better understand the impacts a growing commercial cannabis industry may have on local real estate, the Task Force spoke with Dino D'Argenzio, Senior Real Estate Advisor and Partner, Keegan & Coppin, and Andrew Livingston, Director of Economics and Research, for Vicente Sederberg LLC a leading cannabis law firm.

According to Livingston, cannabis cultivation accounts for over 3.7 million sq. ft. of industrial space in Denver, equating to approximately 2.6% of the existing warehouse footprint. Livingston noted that less than 3.1% of the land, or about 3,000 acres, in Denver is zoned for cannabis cultivation, creating a limited supply which has led to sharp increases in lease rates.

Between 2010 and mid-2015, lease rates for lower-class warehouse space in North Denver climbed from \$4.06 to \$6.34 per square foot for a triple net (NNN) lease. This represents growth of over 56% in just five years (CBRE 2015). However, cannabis tenants often pay two to three times the average because fewer landlords are willing to work with the industry. Livingston referenced a *Denver Post* article from March 2014 that stated:

Walking Raven dispensary co-owner Luke Ramirez is searching for additional grow space. The rates he's being quoted make him feel fortunate to be paying just \$18 per square foot for one of his two current warehouses.

Livingston stated that property prices have skyrocketed in cities and counties throughout California that are considering, or have passed, regulations for medical cannabis businesses. Entrepreneurs are excited about the new market and want to get in before the state or local government closes the application window. Livingston stated that real estate prices are controlled by supply and demand. Sonoma County has no control over the entrepreneurial demand for cultivation licenses but through the zoning code can control the amount of compliant property available to these entrepreneurs.

Dino D'Argenzio explained to the Task Force that in the last 18 months, there has been a rush in Sonoma County to find cultivation locations. Half have come from outside the region (Emerald Triangle – from Oregon down to Sonoma County) and half from inside. Many of these small and medium-size individuals are qualified, existing growers and some are investors who see an opportunity and want to get into the business. Commercial real estate firm Keegan & Coppin Co. of Santa Rosa has been involved in about 200,000 square feet of both lease and purchase transactions in the past year in Sonoma County. The firm is currently working on about 60,000-80,000 in lease applications and purchase of property

D'Argenzio estimates that approximately 75% of property owners are not willing to lease to the cannabis industry, but speculates that will come down to about 50% as awareness of the industry grows. However even if the landlord is interested in leasing to the cannabis industry, many cannot if they have a loan on the property. Federally backed loans often state that the building cannot be used for any activity which violates United States law.

D'Argenzio explained that over that last few years, due to a recovering economy and strong demand from the cannabis industry, local industrial rates have increased.

6 DISTRIBUTION AND TRANSPORTATION

Under both AUMA and MCRSA, all product must be tracked, taxed, and verified as safe by a licensed distributor. The key difference as noted earlier is that MCRSA requires that licensed distributors are prohibited from holding additional license types or ownership interest in real property, personal property, or other assets associated with or used in any other MCRSA license category. This model is similar to our current three-tiered system for alcohol production and distribution, which was created after prohibition that divides the market into producers, distributors, and retailers.

AUMA allows for the holding of multiple license types (with the exception of very large cultivators). Therefore, a local business could cultivate, manufacture, distribute, and sell to the consumer allowing for a more vertically integrated model. This would most likely reduce the importance of distributors.

Regardless of whether AUMA passes, any of the speakers who addressed the Task Force identified distribution and transportation as key economic opportunities for Sonoma County in the cannabis industry. They explained that Sonoma County is already considered to be hub for cannabis distribution and due to our location south of the largely rural Emerald Triangle (Mendocino, Humboldt, and Trinity Counties), Sonoma County is the commercial center that links this cultivation centers to the rest of the state.

Lauren Fraser, co-founder of River Collective (RVR), a California cannabis distributor, informed the Task Force that distribution facilities are best situated in industrial and light industrial zones, business parks, and other non-residential areas. Some considerations for safety and security include the following:

1. Discrete and secure facilities that are strategically located, along key transportation corridors and within reasonable distance to core retail hubs for medical cannabis dispensaries.
2. The use of the facilities may be comparable to traditional distribution and industrial warehouse use types in the zone regulations, with minimal tenant improvements or infrastructure development required.
3. Facilities may have a fenced perimeter, gated parking, roll-up doors and interior loading docks, secured vaults, control access points, 24/7 security cameras.
4. Professional office space for management and staff may also be included.

Fraser also noted that existing industry in Sonoma County employs hundreds, if not thousands, of residents who would welcome the opportunity to be recognized as legitimate, tax-paying community members. She noted by working to ensure Sonoma County continues to be a key distribution and transportation hub for the industry, we can provide an opportunity to recognize and legitimize these existing businesses and workers, and also create more high quality jobs.

Mandatory use of a distributor is a controversial issue for the cannabis industry. As the marketplace becomes more and more competitive, distribution partners may help to offer a voice for the small farmer with the dispensary. However, many small farmers fear that they will no longer be able to manage their relationships with dispensaries and large distributors will have outsized influence on prices and access to the legal market, not unlike craft beer, cider, and spirits producers who have advocated for more direct producer to consumer sales laws to sidestep the influence of large distributors in the marketplace.

7 MANUFACTURING

Cannabis manufacturing is the term used for any processes that “compound, blend, extract, or infuse cannabis products.” These processes can include the production of hash oil, vaping products, and cannabis-infused foods known as edibles. Under MCRSA and AUMA, there will be two types of cannabis manufacturing licenses available:

- Type 6 = Manufacturer of products not using volatile solvents.
- Type 7 = Manufacturer of products using volatile solvents.

The California Department of Public Health (CDPH) is responsible for licensing manufacturers of cannabis products and establishing fees and fines. CDPH is in the process of developing standards regulations, licensing procedures and addressing policy issues in support of medical cannabis manufacturers and testing laboratories. CDPH is responsible for issuing Type 6 and Type 7 licenses to manufacturers.

The new regulations developed by CDPH will provide much needed clarification and regulations regarding edibles. These products do not fit current standards as they are declared to be “not a food” and “not a drug.” Instead, edibles are defined by MCRSA as manufactured cannabis for human consumption.

The law requires all manufacturers to package all medical cannabis products in tamper-evident packaging, use a unique identifier, label the product, include specific health warnings, and prohibits medical cannabis packages and labels from being made to be attractive to children.

Sonoma County is already home to a number of cannabis manufactures, including Care By Design which has a 35,000 square foot state-of-the-art cannabis manufacturing facility in a Santa Rosa business park. The space was formerly used to manufacture heart splints and is equipped with high grade infrastructure, including piping and chillers, suitable for manufacturing consumable products. Care By Design conducts analytical testing onsite, where they test for pesticides, mold, and accurate dosage. The facility employs 30-40 individuals. Since the firm started in 2014, it has grown ten-fold. The facility is in an area zoned for light manufacturing.

8 LAB TESTING

MCRSA and AUMA require that a representative sample of all cannabis sold be tested by a certified testing service to determine whether the chemical profile of the sample conforms to the labeled content of compounds including, but not limited to, all of the following:

1. Cannabinoids (potency)
2. Microbiological contamination
3. Mycotoxins
4. Terpenes
5. Pesticide residues
6. Residual solvents

CDPH has been tasked with ensuring that all cannabis has been tested prior to delivery to dispensaries, manufacturers, or other businesses. CDPH is still in the process of developing the standards and defining the licensing requirements

Certified lab testing licensees are not allowed to hold any additional license types or have ownership interest in a non-testing facility licensed pursuant to this division.

Currently, only 2-5% of the cannabis consumed is tested by a laboratory facility and SC Labs, the largest cannabis testing lab in the state processes approximately 15,000 samples per month, the majority of which only test for potency. The testing requirements outlined in MCRSA and AUMA will provide tremendous growth potential in this industry which employs highly educated and well paid scientific professionals.

9 SALES AND CONSUMPTION

9.1 Sales

As a result of Proposition 215 and SB 420, California dispensaries have operated as collective “cooperative” nonprofit entities, created to distribute cannabis products to member patients who have prescriptions from physicians.

MCRSA will effectively eliminate the collective cooperative nonprofit model and dispensaries will be able to sell to any person with a valid medical marijuana identification. AUMA, if passed, would allow licensed retailers to sell to anyone over the age of 21, and subject to the discretion of the local government, a dispensary licensed to sell medical marijuana under MCRSA could also obtain a license to sell recreational marijuana from the same facility. Further, while AUMA sets the minimum age for purchase at 21, AUMA allows qualified patients aged 18 and older to enter retailers/dispensaries with a valid identification card.

In addition to brick and mortar dispensaries, many patients currently receive cannabis through deliveries. Both MCRSA and AUMA will allow the delivery of cannabis by licensed dispensaries, but cities and counties can prohibit and or regulate this practice.

9.2 Consumption

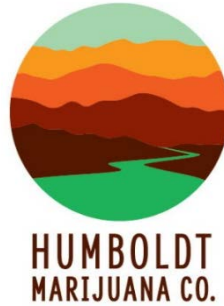
If passed by voters, AUMA will make it lawful to smoke or ingest cannabis, but forbids consumption in any public place except for licensed dispensaries/retailer when authorized by local governments. “Public place” is commonly construed broadly to include any business or property that is open to the public and within 1,000 feet of a school or youth center while children are present, except on residential property or on licensed premises and provided the smoking is not detectable by the kids.

This will greatly reduce the locations where medical patients can inhale their medicine, as Senate Bill 420 has been interpreted to allow medical patients to presently consume legally in streets and public areas where smoking is permitted.

With recreational use, there may be opportunities to open cannabis tasting rooms (like winery tasting rooms) or “cannabis bars” to provide social interaction among cannabis users.

10 SONOMA COUNTY AS A CANNABIS DESTINATION

Geographic location will become more important as cannabis branding becomes more widespread and as appellations similar to those found in the wine industry continue to be created. Sonoma County leaders will need to focus on how the word Sonoma County can be used and how to position its appellation(s). The following are examples of location-based branding.



With the legalization of the recreational use of cannabis, Colorado has started a cannabis tourism industry. Cannabis tour operators are now offering dispensary and grow tours, and cannabis cooking classes, as well as identifying cannabis-friendly hotel accommodations with major hotel chains, and private tours, ranging from \$49 to \$10,000 per tour.

Since Sonoma County is already a tourist destination for quality wine and other agricultural products, it is important for the county leadership to determine how cannabis tourism, which is likely to occur, will fit into the existing tourism industry. It will be essential to determine the compatibility of wine industry tourism with cannabis industry tourism. Currently, no one has conducted research to determine if wine tourists and cannabis tourists have similar needs and expectations. The truth is that cannabis tourists are already here, but not publicly recognized as such.

11 LABOR CONSIDERATIONS

The Sonoma County agriculture labor market is already very tight and many business leaders, particularly those in agriculture, are concerned that their existing labor force will gravitate toward the cannabis industry because it may offer higher wages. A benefit provided by the cannabis industry, however, is that it provides year-round growing and can employ workers in the off-season of the wine industry. The manufacturing and testing components of the cannabis industry may provide opportunities for professionals with two- and four-year college degrees.

12 KEY OPPORTUNITIES FOR THE SONOMA COUNTY ECONOMY

The Task Force identified the following business opportunities for Sonoma County:

1. Business opportunities will be available for the wide range of ancillary businesses that support all aspects of the industry.
 - a) Mechanization in cultivation practices will develop new opportunities for business that support other agricultural support industries.
 - b) Existing lab testing firms can add cannabis testing to their scope of services.
 - c) Existing professional services firms can help cannabis businesses transition out of the underground economy.

2. Sonoma County is an excellent location for cannabis manufacturing, lab testing, and distribution.
 - a) The County is located between the major growing region (Emerald Triangle) and the San Francisco Bay Area market.
 - b) The County has a very strong an existing knowledge base and talented workforce.
3. The cannabis industry will create new jobs and improve existing cannabis related jobs.
 - a) Legal commercial status for cannabis businesses will increase benefits, such as workers compensation and paid time off for existing cannabis workers.
 - b) Most aspects of the cannabis industry are year-round, creating more permanent employment for seasonal workers from other industries.
 - c) Educational institutions can create certificate programs related to the cannabis industry (SSU, SRJC, etc.).
4. Cultivation of high value crop largely sold outside the County brings dollars into our community.
5. A successful and professional cannabis industry can increase the County's brand image as a producer of high quality craft food, beverage and agricultural products.

13 KEY THREATS TO THE SONOMA COUNTY ECONOMY

The Task Force identified the following major threats to Sonoma County's business environment:

1. Real estate prices will become inflated as often landlords/sellers charge more for cannabis-related facilities increasing the market beyond what many business can pay.
 - a) Existing cannabis and traditional manufacturers can't afford to be located here--labor and land are much cheaper elsewhere.
 - b) There is a likelihood that we will lose high-paying manufacturing jobs in other sectors because available manufacturing space is limited in the county
2. A growing cannabis industry will increase demand for local permits slowing the regulatory process for all business.
3. Large scale statewide cultivation could cause over-saturation of cultivation and could pose a threat to cultivators in Sonoma County, negatively affecting the economy for all business.
4. New jobs created by the cannabis industry will create additional impacts on the competitive Sonoma County labor market and may increase the difficulty traditional employees have finding qualified agricultural and manufacturing employees.
5. The lack of traditional banking, loans and many business services available to the industry will limit growth and the cash nature of the business can create an attractive nuisance for criminal behavior.

14 TASK FORCE POLICY RECOMMENDATIONS

1. **Establish a temporary transition period**-New state and county regulations will create tremendous change and disruption to county government and the existing industry. These changes cannot happen overnight.
 - a) To reduce impacts on the cannabis industry and local regulators, the Task Force recommends establishing a minimum of a one-year transition period to achieve compliance with local and state regulations.

2. **Promote a dynamic and competitive legal cannabis market-** A successful local cannabis industry will provide opportunities for a wide range of non-cannabis-related businesses.
 - a) Identify strategies for integrating cannabis-related businesses into the existing economy through workshops and job fairs that include both cannabis and traditional businesses.
 - b) To successfully integrate the cannabis industry into the local economy, the County should provide access to existing best business practices education, and workforce development that is available to other segments of the economy.
 - c) Convene a cannabis stakeholder advisory group to continue discussing cannabis issues.
3. **Mitigate negative impacts on countywide real estate assets-** The successful integration of cannabis businesses into our economy will create additional pressure on an already stressed supply of agricultural lands, commercial real estate and workforce housing.
 - a) Identify opportunities to fast track permitting processes to increase the supply of housing and commercial building inventory.
 - b) Encourage a cooperative farming model by allowing multiple permits on one parcel and allowing cottage growers to cultivate collectively in a legally-designated area
 - c) Limit the canopy size for cultivation at one acre per permit.
4. Explore alternate public banking systems.
5. Encourage educational institutions to establish training programs to prepare the workforce for cannabis industry jobs
6. Determine how cannabis will fit into the Sonoma County Tourism promotions
7. Encourage the development and promotion of Sonoma County cannabis appellations for outdoor grown product
8. Use existing alcohol and tobacco consumption laws as a template for where to allow cannabis consumption, as appropriate
 - a) Establish cannabis sampling based on our wine tasting room model
 - b) Follow existing tobacco restrictions regarding second-hand smoke
9. Provide greater transparency in code enforcement and law enforcement--this applies to all aspects of the industry, as well
10. Encourage a competitive distribution system and support cottage farmers' ability to bypass a distributor.

15 APPENDIX A: TASK FORCE MEETING NOTES

AVAILABLE UPON REQUEST